

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Charles Yackly on February 26, 2006

DATED: August 5, 2006

On February 26, 2006, Michael Schachter and Michael Shapiro, in Willkie Farr & Gallagher LLP's capacity as counsel to the Audit Committee, interviewed Charles Yackly at the City Administration Building, 202 C Street, in San Diego, in a conference room on the third floor. Johnny Giang and Ross Reid from KPMG also attended the interview. Mr. Yackly was not represented by counsel.

The following memorandum reflects my thoughts, impressions, and opinions regarding our meeting with Charles Yackly, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

Mr. Shapiro informed Mr. Yackly that we are counsel to the Audit Committee and do not represent him or any employee, and stated that this interview was not subject to the attorney-client privilege. He advised Mr. Yackly that the interview may be considered attorney work product and confidential, but the decision of whether to keep it confidential will be made by the Audit Committee in the best interests of the City, not by Mr. Yackly personally. Mr. Shapiro said we will create a report which may contain statements of interviewees, and this report will likely be provided to KPMG and ultimately made public. He said government agencies such as the Justice Department and the SEC may view the report and be provided with additional information so it is important to be truthful and accurate.

Background

Mr. Shapiro asked Mr. Yackly to describe his professional background. Mr. Yackly said he started working for the City in November of 1974. He worked in Water Utilities and then the Metropolitan Wastewater Department (MWWDD). In July 1991, he became a Deputy Director of the Water Department and was involved in customer billing, contracts and grants. Beginning in 1995, Mr. Yackly worked in the wastewater collection division dealing with maintenance programs. He became a business manager in the Water Department in May 2001 and Acting Director of the Water Department in November 2005.

Wastewater

Mr. Yackly was shown Exhibit 1, a September 18, 1991 letter from Ronald R. Blair, Revenue Program Specialist, State Water Resources Control Board to Charles Yackly, (Acting Director, Water Department) Deputy Water Utilities Department Director re: "Final Revenue Program Approval – City of San Diego, Clean Water Grant Project No. C-06-1092-210, -510, -530 and -540" and Exhibit 2, a December 14, 1994 memorandum from Dave Schlesinger, Director MWWD to Distribution List re: "Support Requirements for Strength-based Billings for the Participating Agencies." Mr. Shapiro asked Mr. Yackly if he received Exhibit 1. Mr. Yackly responded that he had and that he received it because he oversaw grant programs. Mr. Shapiro asked Mr. Yackly if he received Exhibit 2. Mr. Yackly did not recall if he was aware of the memo at the time but stated that the memo contained an incorrect mail station address so it may not have been sent to him. Mr. Shapiro asked Mr. Yackly for his understanding regarding strength based billing. Mr. Yackly replied that he understood strength based billing was a requirement for municipal customers as well as for the Participating Agencies ("PAs") and that it was a condition for the City's receipt of grants. Mr. Yackly added that at some point, he knew that if the City went to secondary treatment, BOD removal was required. Mr. Shapiro asked Mr. Yackly whether employees involved with the City's grants understood the BOD requirement. Mr. Yackly replied in the affirmative and noted that the State Water Resources Control Board ("SWRCB") revenue program guidelines included Clean Water Act requirements.

Mr. Yackly was shown Exhibit 3, a November 27, 1996 email from SEH@SDDPC.sannet.gov to George Loveland (Deputy City Manager) with copying to Jack McGrory (City Manager), Coleman Conrad (Deputy City Manager), David Schlesinger (Director, MWWD), Alan Langworthy (Deputy Director, MWWD), Charles Yackly, Kelly Salt (Deputy City Attorney), and Shari Sacks re: "Kelco Discount." Mr. Shapiro asked Mr. Yackly if the State knew that strength based billing was not implemented for City users. Mr. Yackly did not recall if the State knew. At this time, his job was focused on the cleaning of sewers. He had no discussion with the State in 1996. Mr. Yackly identified Exhibit 3 as an e-mail from Steve Hogan and said he had no discussion with Mr. Hogan in 1996 and was not in Mr. Hogan's group. Mr. Shapiro asked Mr. Yackly to discuss his knowledge of Kelco. Mr. Yackly replied that Kelco was one of the largest water and sewer customers and was "very influential." He noted that Kelco employees would show up at Council meetings and participate in industrial groups. Mr. Shapiro asked Mr. Yackly if he knew whether Kelco received special treatment. Mr. Yackly replied that Kelco did not receive any special treatment disproportionately to other users. He added that Kelco tried to influence the City government so that it could pay less for water and sewer usage. Mr. Shapiro asked Mr. Yackly if the Mayor and/or City Council were particularly looking out for Kelco. Mr. Yackly said he does not recall but noted he was not really involved in sewer rates in 2002. Mr. Yackly added that he did attend Public Utilities Advisory Commission meetings and Kelco had a consultant attend the meetings, as well.

Mr. Yackly was shown Exhibits 4, 5 and 6. Exhibit 4 is an April 7, 1997 email from David Schlesinger (Director, MWWD) to undisclosed recipients re: "Kelco Meeting April 4 '97"; Exhibit 5 is a June 2, 1997 email from Susan Hamilton (Director, MWWD) to undisclosed recipient re: "Kelco Sewer Line –Reply –Reply –Reply –Reply –Forwarded" attaching a June 2, 1997 email from David Schlesinger to undisclosed recipients re: "Kelco Sewer Line –Reply –Reply –Reply –Reply"; Exhibit 6 is an August 14, 1997 email from Bill

Hanley (Deputy Director, MWWD) to undisclosed recipients re: "Kelco –Reply." Mr. Shapiro asked Mr. Yackly to discuss the loan that is being referenced in the documents. Mr. Yackly replied that he is not sure what the loan was and was not involved in negotiating it. He said it appears to be "some deal with Kelco." Mr. Yackly said that Mr. Hanley was responsible for the "loan issue." Mr. Shapiro asked Mr. Yackly if the loan raised any Proposition 218 issues. Mr. Yackly said he would not have considered Proposition 218 and is not sure if he gave any thought to Proposition 218 at the time.

Mr. Yackly was shown Exhibit 7, a July 31, 1997 memo from William J. Hanley III, Deputy Director, Services and Contracts, to Al Beingessner, Alan Langworthy (Deputy Director, MWWD), Chris Toth, Scott Tulloch (Director, MWWD) and Charles Yackly copying to Dave Schlesinger (Director, MWWD) and Susan Hamilton (Director, MWWD) re: "Draft Cost of Service Study." Mr. Shapiro asked Mr. Yackly if he recalled Exhibit 7. Mr. Yackly replied that he did not recall it and did not recall why he was copied on it. He did not recall the findings of the Cost of Service Study ("COS") but does recall discussions at staff meetings that adjustments were needed. He thought the meeting where the COS was discussed involved storm water issues. Mr. Shapiro asked Mr. Yackly if he recalled hearing that the COS was shelved. Mr. Yackly did not recall but said the COS cost a couple hundred thousand dollars.

Mr. Yackly was shown Exhibit 8, an October 16, 1997 email from Kathi Ward to undisclosed recipient re: "Kelco –Forwarded –Forwarded." Mr. Yackly said that Harry Herman was an assistant civil engineer in MWWD engineering. Mr. Shapiro asked Mr. Yackly what the referenced meeting involved. He replied that it was probably about odor problems at pump station five.

Mr. Yackly was shown Exhibit 9, an October 24, 2001 email from Dennis Kahlie (Utilities Finance Administrator) to Mary Vattimo (City Treasurer) and Patricia Frazier (Deputy City Manager) re: "Re: Water Rate Case." Mr. Shapiro asked Mr. Yackly what Dennis Kahlie meant in the email when he wrote, "The mayor wants to put off the rate increase discussion for political reasons..." Mr. Yackly replied that rate increases are a political event and nobody likes to support a rate increase. He noted that there is always push back from the Mayor and the Council. Mr. Shapiro asked Mr. Yackly if he recalled any such push back regarding the sewer rate structure. Mr. Yackly replied that he did not recall push back regarding the sewer rate structure but was focused on water, not sewer.

Mr. Yackly was shown Exhibit 10, a January 15, 2003 email from Dennis Kahlie (Utilities Finance Administrator) to Christine Ruess (Water Rate Analyst), Charles Yackly (Acting Director, Water Department), Marsi Steirer and Sam Gray re: "Re: cost of service study." Mr. Shapiro asked Mr. Yackly what "nr&c" stands for. Mr. Yackly replied it referred to the Natural Resources and Culture Committee. Mr. Shapiro asked Mr. Yackly if he attended the Natural Resources and Culture Committee meeting referred to in Exhibit 10. He replied that he attended but did not recall Councilmember Frye asking questions regarding the COS. He said he thought her questions dealt with the water COS.

Mr. Yackly was shown Exhibit 11, a September 19, 2003 email from Scott Tulloch (Director, MWWD) to Kathi Ward, Larry Gardner, Richard Mendes (Deputy City Manager), Bill Hanley (Deputy Director, MWWD), and Charles Yackly (Acting Director, Water Department) re: "Re: Chamber of Commerce – Cost of Service Study." Mr. Shapiro asked Mr.

Yackly to discuss Exhibit 11. Mr. Yackly replied that if he attended the referenced meeting, he must have thought the water COS would be discussed. He noted that the sewer COS may also have been discussed but he did not recall. He said that the sewer COS was all about strength based billing and a discussion took place regarding whether strength based billing was really mandated. He said the cost causative method, as well as other methods, were discussed. He said that the City's position was that change was needed. Mr. Shapiro asked Mr. Yackly to discuss the role of Kelco in the sewer COS. He said that Kelco frequently threatened that water and sewer rates would make it too hard to do business in San Diego. He said he did not recall Kelco referring to political connections to get results. Mr. Yackly did not recall Kelco saying they would go over the heads of the City employees but Kelco did make contact with the SWRCB. Mr. Yackly did not recall why it took so long to implement the COS. He understood there was reluctance to implement it because it would impact certain users and "would be a big battle."

Mr. Yackly was shown Exhibits 12 and 13. Exhibit 12 is a January 9, 2004 email from Kathi Ward to Janet Bruce, Larry Gardner, Olivia Castillo, Scott Tulloch (Director, MWWD), Bill Hanley (Deputy Director, MWWD) and Charles Yackly (Acting Director, Water Department) re: "meeting w/Doug Sain on Cost of Svc Studies." Exhibit 13 is a January 11, 2004 email from Charles Yackly to undisclosed recipients re: "COS @ Richard's with Doug Sain." Mr. Yackly did not recall either email or to what they referred.

Mr. Yackly was shown Exhibit 14, a January 29, 2004 email from Christine Ruess (Water Rate Analyst) to Larry Gardner and Charles Yackly (Acting Director, Water Department) re: "Voluntary Disclosure" and Exhibit 15, a February 9, 2004 email from Kelly Salt (Deputy City Attorney) to Bill Hanley (Deputy Director, MWWD), Charles Yackly, (Acting Director, Water Department) George Loveland (Deputy City Manager), Larry Gardner, Richard Mendes (Deputy City Manager) and Scott Tulloch (Director, MWWD) copying to Christine Ruess (Water Rate Analyst), Dennis Kahlie (Utilities Finance Administrator), Keri Katz (Deputy City Attorney), Les Girard (Assistant City Attorney) and Ted Bromfield (Senior Deputy City Attorney) re: "California Courts Supreme Court." Mr. Shapiro asked Mr. Yackly to discuss his involvement with sewer bonds. Mr. Yackly said he had no involvement with sewer bonds. He said that for the 2002 water bond, he did not recall who was outside counsel but thought it may have been Orrick. He said he attended one or two page turners and Ms. Salt did as well. He did not recall if Paul Webber was there but Mr. Webber may have been on the phone. Mr. Yackly did not recall any disclosure issues arising during these page turners. He did not recall any discussions regarding sewer rates, noncompliance or whether that noncompliance should be disclosed. Mr. Yackly was shown Exhibit 16, a March 22, 2004 email from Charles Yackly (Acting Director, Water Department) to Charles Yackly (Acting Director, Water Department) and Alex Ruiz re: "Re: Low Income Assistance Program." Mr. Shapiro asked Mr. Yackly if the Water Department had compliance problems with its State grants. Mr. Yackly said it did not. Mr. Shapiro asked Mr. Yackly if Richard Mendes had a close relationship with the Mayor or any member of the Council. Mr. Yackly did not know. He said he did not get any sense that Mr. Mendes had any reluctance to move to strength based billing but wanted to make sure it was required. Mr. Yackly noted that a lot of resistance to changing to strength based billing caused delays in implementing strength based billing.

Pension

Mr. Yackly was shown Exhibit 17, a June 18, 2002 email from Terri Webster (Deputy City Auditor & Comptroller) to Josie Matsuo, Dennis Kahlie (Utilities Finance Administrator), Charles Yackly (Acting Director, Water Department), and Sam Gray re: "Re: Up-Front Funding of Water Department Pension Liability." Mr. Yackly recalled that there was an unfunded pension liability on the Water Department's balance sheet. The liability was subsequently funded which reduced the funds available for the Department's use.

Mr. Yackly was shown Exhibit 18, a February 2, 2004 email from Terri Webster (Deputy City Auditor & Comptroller) to Patricia Frazier (Deputy City Manager), Christine Ruess (Water Rate Analyst), Dennis Kahlie (Utilities Finance Administrator), Eric Adachi (Analyst, Financing Services), Lakshmi Kommi (Deputy Director of Financial Services from 2002 to the present. Prior to that she was a First Line Supervisor from 2001 to 2002 and has been employed by the City since 1994), Mary Vattimo (City Treasurer), Ed Ryan (City Auditor & Comptroller), Clay Bingham (Director, Park and Recreation), Bill Hanley (Deputy Director, MWWD) and Charles Yackly (Acting Director, Water Department) re: "Re: Critical Issue – Pension Contribution Factors." Mr. Yackly said that they had discussions that sewer and water would totally fund their pension liabilities. Mr. Shapiro asked Mr. Yackly to explain what is meant in the email by "It is particularly important that the wastewater-specific factors be made available as soon as possible to avoid another major flail with Paul..." Mr. Yackly did not know what it referred to.

Mr. Yackly was shown Exhibit 19, a February 3, 2004 email from Bill Hanley (Deputy Director, MWWD) to Lakshmi Kommi, (Deputy Director of Financial Services from 2002 to the present. Prior to that she was a First Line Supervisor from 2001 to 2002 and has been employed by the City since 1994), Ed Wochaski (Principal Accountant) and Terri Webster (Deputy City Auditor & Comptroller) re: "Re: Rate Case Update For Pension Fund Obligations." Mr. Yackly said they were trying to understand what to budget to pay the pension liability. He said Mr. Hanley thought they would have a big liability and recalls there was discussion whether to fund the Water Department's UAAL.

Conclusion

Mr. Shapiro asked Mr. Yackly if there are any other issues of which we should be aware. He replied, "No." Mr. Shapiro asked Mr. Yackly if he knew or was aware of any illegal, improper, or unethical conduct on the part of any city employee. Mr. Yackly said he did not know of any illegal, improper or unethical conduct on the part of any city employee. Mr. Shapiro requested that Mr. Yackly keep the interview confidential to preserve the integrity of the process. Mr. Shapiro informed Mr. Yackly that if he recalled any information or wished to inform us of any new information, he should contact us.

WF&G

EXHIBIT 1

(916) 739-4426
(916) 739-2300 FAX

SEP 18 1991

Mr. Charles Yackly
Deputy Water Utilities
Department Director
City of San Diego
First Interstate Plaza
401 B Street, Suite 400
San Diego, CA 92101-4227

Dear Mr. Yackly:

FINAL REVENUE PROGRAM APPROVAL -- CITY OF SAN DIEGO, CLEAN WATER GRANT PROJECT
NO. C-06-1092-210, -510, -520, -530 AND -540

The City of Chula Vista recently received approval of their final revenue program and sewer use ordinance. All member agencies of the City of San Diego Wastewater Treatment Facilities now have an approved revenue program and sewer use ordinance. Congratulations, the City of San Diego has complied with all the appropriate revenue program requirements applicable to the above referenced projects.

Implementation and maintenance of the user charge system is a requirement of the grant regulations (refer to 40 CFR 35.2208). Both the user charge system and sewer use ordinance must be implemented for the useful life of the facilities. The California State Water Resources Control Board, Division of Clean Water Programs, must be notified when either of these ordinances/resolutions are changed. In addition, your agency must maintain records necessary to document compliance with these requirements.

If you have any questions about this letter, please contact me at (916) 739-4426.

Sincerely,

ORIGINAL SIGNED BY

Ronald R. Blair
Revenue Program Specialist

cc: Ms. Trina Blake
City of San Diego
First Interstate Plaza
401 B Street, Suite 400
San Diego, CA 92101-4227

bcc: Fred Johansen, DCWP
Christine Bailey, DCWP

RBLAIR/DYEE/ATDISK3:SANDIEGO.LTR/17 SEP 91

DK 03941

SURNAME
DWR 540 REV. 1/86

6-30-05 COS SEC Subpoena

86 30108

WASTEWATER0001028

EXHIBIT 2

cc: Pete Wong

City of San Diego
METROPOLITAN WASTEWATER DEPARTMENT
M E M O R A N D U M
533-4200

In reply, please refer to
Chronological Number:

CWP- 126124

DATE: December 14, 1994
TO: Distribution List
FROM: Dave Schlesinger, Director MWWD, MS 905
SUBJECT: Support Requirements for Strength-based Billings for the Participating Agencies

Neil,

FYI & Files

Pete W

12/20/94

One of the specific grant conditions which the City agreed to meet when we accepted EPA and State Clean Water grant funds was to convert our current flow-based billing practices for the Participating Agencies (PA's) to include a strength-based billing component (i. e., suspended solids/BOD charges in addition to the existing flow-based charge). I have assigned the MWWD Support Services Division (SSD) the responsibility for implementing flow and strength-based billing for the PA's for FY 96.

In order to meet this deadline, SSD requires help from various other divisions. The purpose of this memo is to identify appropriate divisions which will need to provide support to SSD. I am directing each division head to work closely with SSD and provide staff and other resources as necessary to assist in the implementation of the billing effort.

SUPPORT REQUIREMENTS

The attached exhibit identifies the divisions which need to work closely with and provide support to SSD in implementing the new billing approach, and provides a brief description of the type of support required for this effort. The following tasks need to be completed by the team:

- Establish a team and project/team leaders (administrative and technical), develop a workplan and schedule, including specific assignments to carry out the tasks outlined below.
- Prepare a technical document (to be produced by the MWWD/PM engineering staff) which provides engineering justification for the treatment parameter percentages for each unit process.
- Develop a computer-based allocation model to accumulate sampling data, allocate capital and O&M costs to applicable parameters, and determine/allocate PA shares of MWWD's capital and O&M costs.
- Prepare and execute a written plan for sampling flow and strength, and work with the PA's to gain approval and execute the sampling plan.
- Prepare and execute a written plan for educating other City departments, the City Council and the PA's about these necessary cost allocation changes to the Sewage Disposal Agreements.

EA 00167

6-30-05 COS SEC Subpoena

126124

Distribution List
Support Requirements for Strength-based Billings for the Participating Agencies
December 14, 1994
Page 2 of 2

- Coordinate the cost allocation methodology and the data collection effort with the current sampling effort already being performed.
- Prepare and submit the documentation to the SWRCB Division of Water Quality in accordance with the applicable State of California and Federal requirements.

KICKOFF MEETING

Chuck Mueller and Hedy Griffiths will be leading this team effort. They will set up a kickoff meeting on January 5 or 6, 1995. Please notify Hedy (ext. 35420) which experienced supervisor/staff from your division you are assigning to the team (name/phone number) no later than Wednesday, December 21, 1994, so that a mutually feasible kickoff meeting date/time/location can be determined and announced to all participants.

Please call Susan Hamilton, Chuck Mueller or me should you have any questions about this important effort.


F. D. SCHLESINGER

FDS:RM:kdw
H:\wpfiles\FDS\41209.mcm

Attachment: Exhibit 1

Distribution:
Al Beingessner
Alan Langworthy, MS 45A
Chuck Mueller
Charles Yackly, MS 85

EA 00168

6-30-05 COS SEC Subpoena

126124

EXHIBIT 1

STRENGTH-BASED BILLING DEVELOPMENT/IMPLEMENTATION TEAM

<u>DIVISION</u>	<u>TEAM ROLE</u>	<u>FUNCTION</u>
SSD	Project Leader	Project Management
SSD	Team Leader	Amend Sewage Disposal Agreements
SSD	Team Leader	Work closely with PA's on approval of the Sampling/Data Collection Plan
SSD	Team Leader	Develop computer model for allocating costs of regional system
→ EWRD	Team Leader	Prepare technical justification for cost allocations }
IWS	Team Leader	Collect samples at PA meter sites
LAB	Team Leader	Analyze samples/data from PA meter sites
SSD	Team Leader	Prepare and submit quarterly billings to PA's

EA 00169

6-30-05 COS SEC Subpoena

EXHIBIT 3

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<In>: 1:3:2:1
<Fr>: <SEH@SDDPC.sannet.gov>
<Su>: KELCO

<From>: <SEH@SDDPC.sannet.gov>
<TO>:
<CC>:
<BC>: Alan Langworthy
<Message Type>: Message
<Creation Date>: 11/27/1996 6:20 PM
<Subject>: KELCO

<Attachment>: 1\Header

<Message>:

George L

c: Jack ,Coleman, Dave S, Alan L, Charles Y, Kelly S, Shari Sacks

Re: Kelco Discount

d

Meeting scheduled for December 2, 1996 at 11:30 in Jack's office.

I spoke to Hedy Griffiths who is working with the Metro Sewer Agencies to begin their billings based upon flow and STRENGTH. The strength part is anticipated to occur in FY98.

Here are some facts for Monday's meeting if you intend to attend:

- 1) Hedy noted that the STATE is questioning the RIGHT OF WAY charges.
- 2) The State has just completed another audit of the federal grants
You will recall that in 1989 we fought a heck of a battle with the State because they disallowed all of our Accelerated Project Grants back to 1979 or about \$45 million because we had not done a revenue plan. We won after a year of work and paying for a consultant who was an expert in the area of disallowances on federal grants.
- 3) The MWWD department is currently engaged in a COST OF SERVICE study for the sewer system which could result in a new revenue plan being filed with the State. It also may impact the charges paid by each class of sewer discharger.

EXHIBIT 4

From: Dennis Kahlie
To: Mary Vattimo; Patricia Frazier
Date: Wednesday, October 24, 2001 9:21:34 AM
Subject: Re: Water Rate Case

Darlene & I spoke this morning. A surety would cost +/- 3% of the debt service reserve in today's market, and would also cost lost interest over the term of the bonds. In and of itself, the surety would not be a credit issue, but Darlene advises doing so only if they reaaaaaaally need the money since it could only be used for pay-go capital. On the other hand, she views liquidation of the operating, capital and other reserves as a major credit negative which would potentially lead to a ratings downgrade, as would failure to maintain debt service coverage at 1.6x.

-D

>>> Mary Vattimo 10/24 8:05 AM >>>
probably because noone was at the meeting to articulate that point :)

>>> Dennis Kahlie 10/23/2001 4:10:32 PM >>>
They know MWWD used a surety to solve a cash flow problem in the past. The mayor wants to put off the rate increase discussion for political reasons and the dept. is grasping at straws. Mendes asked if water could borrow from sewer to pay for reclaimed pipelines and get repaid later. I'm looking into that, but I'm not confident that the repayment would occur any time soon, particularly if water only gets 6% in calendar 2002. I've also told them that failure to maintain debt coverage at 1.6x will imperil their AA rating, but no one's told the mayor that, either.

>>> Mary Vattimo 10/23 3:41 PM >>>
I'm not suggesting liquidating reserves; I don't see how they can do that. I wouldn't ask Darlene to call the rating agencies; saying you discussed their request with the FA and that the liquidation of reserves would cause a credit problem should suffice....I would just tell water that they can't liquidate reserves (bond covenants, credit issues, etc) and that a surety substitution will give them \$___ to work with. Also, how did they know to ask about a surety?

>>> Dennis Kahlie 10/23/2001 3:28:13 PM >>>
I've already got a call in to Darlene. A surety in and of itself probably isn't a credit concern, but if I were a credit analyst and I saw an agency going to a surety and liquidating its operating and emergency capital reserves, I'd be thinking they're in trouble. If Darlene can explore this with some rating agency types without their knowing who's contemplating such an action, I think she should do so.

>>> Mary Vattimo 10/23 3:13 PM >>>
Please ask your FA's their thoughts on surety; I don't see a credit issue if we adhere to bond covenants re: surety substitution. I understand this won't solve all of their problems.

I agree with you; ed/pat or you need to be present at these meetings. Pat - what do you think?

Mary

>>> Dennis Kahlie 10/23/2001 2:10:30 PM >>>
Mary,

Christine and I spent an hour and a half with Mr. Mendes, Larry Gardner, Marsi, Sam, Charles Yackly, Nick Kanelis, on water rate case issues. Larry and Mike met with the mayor on Monday, during the course of which they were advised that the mayor doesn't want to discuss water until next March, with the idea being not to increase water rates until the following July, and then only by 6%. This hastily-called meeting was to discuss and prepare for a second meeting with the mayor scheduled for next Monday.

As far as I can see, water can't do without a rate increase until next July without demobilizing projects currently under way, let alone undertake any new ones. Moreover, loss of an immediate 6% increase ripples through the entire 10-year planning period. I was asked whether we could solve the problem by liquidating reserves (45-day operating, emergency capital, secondary purchase, rate stabilization) and debt service via surety. I told the group that such actions would probably not be looked at favorably by the rating agencies, that the funds derived wouldn't help meet coverage requirements, and 45-day, emergency cap and secondary purchase would have to be re-funded by the beginning of FY03 anyway, but committed to raise the issue with Pat & Ed.

Is there a problem with my approaching Pat & Ed on this? I'm also worried that no one from our shop is attending these meetings with the mayor to address the financial implications. I could discuss with John Kern if you want.

-D

CC: Christine Ruess

Vattimo-683

COS007245

From: Dennis Kahlie
To: Mary Vattimo; Patricia Frazier
Date: Wednesday, October 24, 2001 9:21:34 AM
Subject: Re: Water Rate Case

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-D

CC: Christine Ruess

Vattimo-683

COS007245

WASTEWATER0002040

786848

Wastewater Hot 3-20-06

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [622.Demo-dom.Demo-PO.100.E.0.622.1]

From: [Susan Hamilton]

To: []

Subject: [Kelco Sewer Line -Reply -Reply -Reply -Reply -Forwarded]

Creation date: [6/2/1997 8:58:11 AM]

In Folder: [subpoena.6.30]

Attachment File name: [F:\Output\ALangworthy3\2037.1-GW.MESSAGE.MAIL]

Message: [

fyi

]

WASTEWATER0001282

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [1D1B.Demo-dom.Demo-PO.200.E.0.1D1B.1]

From: [Dave Schlesinger]

To: []

Subject: [Kelco Sewer Line -Reply -Reply -Reply -Reply]

Creation date: [6/2/1997 8:56:54 AM]

In Folder: [subpoena.6.30]

Attachments: None

Message: [

Thanks. You should know that Jack just agreed to increase their "loan" from \$300K to \$1.2 Mill for "unspecified additional projects". Hopefully the new line is one of them. June 12 is a better date for me. Please work with Kathi on time.

>>> Charles Yackly 05/30/97 04:09pm >>>

Dave,

I spoke to McKinley today and he said that he would be available to meet with us the week of June 9th, preferably around the 12th or 13th. He mentioned that he needed more time to review what he had on the project as well as obtain some confirmation of his company's position on the matter. I will ask Sylvia to set something up on around the time frame specified in conjunction with Kathi. Charles

>>> Dave Schlesinger 05/29/97 09:02am >>>

OK - could you set up a meeting with David, you, and I so we can review the design and cost estimates with him?

>>> Charles Yackly 05/28/97 12:56pm >>>

Dave,

McKinley and I have been discussing this option. I told him we definitely wanted to do this and we needed to negotiate the cost sharing. The flow would go to the harbor Drive Trunk Sewer rather than the SMI. My understanding is that the design was done about a year ago but KELCO balked at proceeding based on the high cost. I mentioned that we wanted to look at the cost benefit from us I..e. electrical, odor control, etc., .

I also mentioned that we could probably move the quickest pursuant to a participation agreement whereby they design and build and then we pay them for our share when the project is completed. I have received some examples of such agreements that I will be sending for his review.

Charles

786847

Wastewater Hot 3-20-06

>>> Dave Schlesinger 05/28/97 10:57am >>>

Charles - David McKinney grabbed me after the NCR meeting today and asked if we would be interested in cost sharing the relocation cost of their line from SPS 5 to the SMI. I told him yes. How do we want to start the engineering on this one? I would really like to make this a priority so we can develop a schedule and release it if we have any more odor problems at SPS 5.

]

WASTEWATER0001284

786848

Wastewater Hot 3-20-06

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [622.Demo-dom.Demo-PO.100.E.0.622.1]

From: [Susan Hamilton]

To: []

Subject: [Kelco Sewer Line -Reply -Reply -Reply -Reply -Forwarded]

Creation date: [6/2/1997 8:58:11 AM]

In Folder: [subpoena.6.30]

Attachment File name: [F:\Output\ALangworthy3\2037.1-GW.MESSAGE.MAIL]

Message: [

fyi

]

WASTEWATER0001282

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [1D1B.Demo-dom.Demo-PO.200.E.0.1D1B.1]

From: [Dave Schlesinger]

To: []

Subject: [Kelco Sewer Line -Reply -Reply -Reply -Reply]

Creation date: [6/2/1997 8:56:54 AM]

In Folder: [subpoena.6.30]

Attachments: None

Message: [

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]

WASTEWATER0001284

EXHIBIT 5

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [206.Demo-dom.Demo-PO.100.E.O.206.1]

From: [Dave Schlesinger]

To: []

Subject: [Kelco Meeting April 4 '97]

Creation date: [4/7/1997 8:45:36 AM]

In Folder: [subpoena.6.30]

Attachments: None

Message: [

I met with Kelco reps Steve Zapoticzny (Director Enviorn Safety and Health), Rececca Peterson (Plant Manager) and David ----- (Enviornmental Engineer). Alan Langworthy and Charles Yackley attended also. Purpose of meeting was to discuss odor mitigation in relation to Perkins School and progress on City's committment to reduce Kelco water and sewer billings. Summary follows:

1. Odor Mitigation: We toured the plant and the manholes/conveyance line that discharges Kelco waste to PS #5. Also reviewed nitrate odor mitigation feed recently required by Metro WWD to reduce Hydrogen Sulfide in the sewer main. All systems appear to be working well. PS #5 which is a City responsibility is working well and Kelco concurs. The overall plant has a seaweed odor that is impossible to control. Unclear if this is part of the Perkins School complaints. We agreed City will take the lead to set up a meeting with Perkins School principal and jointly show the proactive efforts of City and Kelco to reduce the odor coming from the wastewater discharge.

Ron Kole: Action to set up meeting. Alan L. Charles Y and myself should represent City. Kelco will send appropriate staff.

2. Reduction of Water and Sewer Billings: Wastewater rebate was paid to Kelco in Dec '96. Water rebate has not yet been paid. Kelco has provided data to Marci Steier but doesn't know when the rebate will be given. Loan to provide capital for Kelco to make facilities improvements to lower sewer billing category 2 more levels: Kelco is aware of the efforts by Metro WWD to obtain permission to up-front fund these efforts and the difficulty to do so legally. Kelco has decided to go forward without this loan for the first phases of the work and fund the effort themselves. Water and Sewer rate increases. Kelco expects the City to honor its committment not to raise water and sewer rates more than 3% on Jul 1 '97. I told Steve this was not the plan for the sewer side and I thought the water rate increase would be more than 3% also. There was talk of getting an industrial rate for large water users such as Kelco to give them a volume reduction. I agreed this made sense but suggested they work directly with George Loveland.

George: Suggest you call Steve and give him the latest on when they can expect their water rebate. Also the idea of an industrial water rate for big users should be explored.

Coleman: Suggest you and I have a follow up meeting with Steve (or President of Kelco/Nutrisweet to resolve this sewer rate increase issue. There is clearly a mixup in the communications on this issue.

]

786848

Wastewater Hot 3-20-06

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [622.Demo-dom.Demo-PO.100.E.0.622.1]

From: [Susan Hamilton]

To: []

Subject: [Kelco Sewer Line -Reply -Reply -Reply -Reply -Forwarded]

Creation date: [6/2/1997 8:58:11 AM]

In Folder: [subpoena.6.30]

Attachment File name: [F:\Output\ALangworthy3\2037.1-GW.MESSAGE.MAIL]

Message: [

fyi

]

WASTEWATER0001282

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [1D1B.Demo-dom.Demo-PO.200.E.0.1D1B.1]

From: [Dave Schlesinger]

To: []

Subject: [Kelco Sewer Line -Reply -Reply -Reply -Reply]

Creation date: [6/2/1997 8:56:54 AM]

In Folder: [subpoena.6.30]

Attachments: None

Message: [

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]

EXHIBIT 6

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [6FB.Demo-dom.Demo-PO.100.E.0.6FB.1]

From: [Bill Hanley]

To: []

Subject: [Kelco -Reply]

Creation date: [8/14/1997 8:25:36 AM]

In Folder: [subpoena.6.30]

Attachments: None

Message: [

Rosa - I haven't received the copies of the contract yet. If you have them, let me know & I'll have them picked up.

Clay - Start the process to get the check cut. Give some advance warning to the auditors & FM. I'll get you a copy of the contract ASAP. Funding is MUNI.

Charles- Clay is going to need help identifying source of funds. Thanks.

Alan - For your info.

>>> Coleman Conrad 08/13/97 05:06pm >>>

Ted, Three Kelco issues:

1. Sent back the executed Kelco agreement to Kelco today. Thanks. I sent the City's two executed copies to Bill Hanley for follow-up and proceeding to get the \$300,000 check to Kelco asap.
 2. Talked to Zapoticsny who indicated he wanted to hold off at this time on proceeding to Council for approval for a suspended solids load reduction program in excess of the \$300k. Told him I will hold on to the 1472 and not proceed further at this time.
 3. Zapoticsny indicated that they would like to proceed with the proposal they put on the table at our last meeting to receive the benefits of a category rate reduction now based on their actually achieving the full reduction no later than June 30, 1998. They will be committing to a three category reduction, instead of a four, and would like the benefit of the lower rate to be effective from January 1, 1997 to June 30, 1998. The agreement would specify that if they did not in fact achieve the category reductions that they would then repay the City in full. Being able to do this would greatly help in allowing us to provide Kelco with the benefit of the bargain they made with Jack last December. Please let me know if we can proceed with this arrangement. Zapoticsny indicated he would e-mail more details to me and I will copy you as soon as I get them.
- Thanks. Coleman.

]

EXHIBIT 7


CITY OF SAN DIEGO
MEMORANDUM

RECEIVED
JUL 31 1997
CLEAN WATER PROGRAM

DATE: July 31, 1997
TO: Distribution
FROM: William J. Hanley III, Deputy Director, Services and Contracts
SUBJECT: Draft Cost of Service Study

Attached, please find a draft copy of the Sewer Cost of Service Study prepared on behalf of the City of San Diego by the firm High-Point Rendel. The Financing Services Division of the Financial and Technical Services Business Center requests our assistance in providing review and comment on this draft. We are told this document still requires plenty of work despite being in it's third draft, so your time will not be wasted. Please take time to review this document thoroughly and, by August 14th, provide any comments to Clay Bingham at # 533-5225.

Thank you in advance for your help. If you have any questions, please call Clay.



WILLIAM J. HANLEY III

CCB:cb

Attachment: Draft Cost of Services Study

[H:\WPFILES\CASTSER.WPD]

cc: Dave Schlesinger w/o
Susan Hamilton w/o

Distribution: Al Beingsner
Alan Langworthy
Chris Toth
Scott Tulloch
Charles Yackly

MWWWD-BH0942

6-30-05 COS SEC Subpoena

WASTEWATER0001299

EXHIBIT 8

786884

Wastewater Hot 3-20-06

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [911.Demo-dom.Demo-PO.100.E.0.911.1]

From: [Kathi Ward]

To: []

Subject: [Kelco -Forwarded -Forwarded]

Creation date: [10/16/1997 8:07:37 AM]

In Folder: [subpoena.6.30]

Attachment File name: [F:\Output\ALangworthy3\2062.1-GW.MESSAGE.MAIL]

Message: [

Alan,

Dave would like you to attend a meeting in his office on Monday, October 20th @ 3:00 pm with Charles, Harry Herman and David McKinley of Kelco.

Thanks,

Kathi

]

WASTEWATER0001353

EXHIBIT 9

From: Dennis Kahlie
To: Mary Vattimo; Patricia Frazier
Date: Wednesday, October 24, 2001 9:21:34 AM
Subject: Re: Water Rate Case

Darlene & I spoke this morning. A surety would cost +/- 3% of the debt service reserve in today's market, and would also cost lost interest over the term of the bonds. In and of itself, the surety would not be a credit issue, but Darlene advises doing so only if they reaaaaaaalllly need the money since it could only be used for pay-go capital. On the other hand, she views liquidation of the operating, capital and other reserves as a major credit negative which would potentially lead to a ratings downgrade, as would failure to maintain debt service coverage at 1.6x.

-D

>>> Mary Vattimo 10/24 8:05 AM >>>
probably because noone was at the meeting to articulate that point :)

>>> Dennis Kahlie 10/23/2001 4:10:32 PM >>>
They know MWWD used a surety to solve a cash flow problem in the past. The mayor wants to put off the rate increase discussion for political reasons and the dept. is grasping at straws. Mendes asked if water could borrow from sewer to pay for reclaimed pipelines and get repaid later. I'm looking into that, but I'm not confident that the repayment would occur any time soon, particularly if water only gets 6% in calendar 2002. I've also told them that failure to maintain debt coverage at 1.6x will imperil their AA rating, but no one's told the mayor that, either.

>>> Mary Vattimo 10/23 3:41 PM >>>
I'm not suggesting liquidating reserves; I don't see how they can do that. I wouldn't ask Darlene to call the rating agencies; saying you discussed their request with the FA and that the liquidation of reserves would cause a credit problem should suffice....I would just tell water that they can't liquidate reserves (bond covenants, credit issues, etc) and that a surety substitution will give them \$___ to work with. Also, how did they know to ask about a surety?

>>> Dennis Kahlie 10/23/2001 3:28:13 PM >>>
I've already got a call in to Darlene. A surety in and of itself probably isn't a credit concern, but if I were a credit analyst and I saw an agency going to a surety and liquidating its operating and emergency capital reserves, I'd be thinking they're in trouble. If Darlene can explore this with some rating agency types without their knowing who's contemplating such an action, I think she should do so.

>>> Mary Vattimo 10/23 3:13 PM >>>
Please ask your FA's their thoughts on surety; I don't see a credit issue if we adhere to bond covenants re: surety substitution. I understand this won't solve all of their problems.

I agree with you; ed/pat or you need to be present at these meetings. Pat - what do you think?

Mary

>>> Dennis Kahlie 10/23/2001 2:10:30 PM >>>
Mary,

Christine and I spent an hour and a half with Mr. Mendes, Larry Gardner, Marsi, Sam, Charles Yackly, Nick Kanetis, on water rate case issues. Larry and Mike met with the mayor on Monday, during the course of which they were advised that the mayor doesn't want to discuss water until next March, with the idea being not to increase water rates until the following July, and then only by 6%. This hastily-called meeting was to discuss and prepare for a second meeting with the mayor scheduled for next Monday.

As far as I can see, water can't do without a rate increase until next July without demobilizing projects currently under way, let alone undertake any new ones. Moreover, loss of an immediate 6% increase ripples through the entire 10-year planning period. I was asked whether we could solve the problem by liquidating reserves (45-day operating, emergency capital, secondary purchase, rate stabilization) and debt service via surety. I told the group that such actions would probably not be looked at favorably by the rating agencies, that the funds derived wouldn't help meet coverage requirements, and 45-day, emergency cap and secondary purchase would have to be re-funded by the beginning of FY03 anyway, but committed to raise the issue with Pat & Ed.

Is there a problem with my approaching Pat & Ed on this? I'm also worried that no one from our shop is attending these meetings with the mayor to address the financial implications. I could discuss with John Kern if you want.

-D

CC: Christine Ruess

EXHIBIT 10

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [3E26A86C.CCP.MANAGER.200.200000C.1.85FF6.1]

From: [Dennis Kahlie]

To: [;Ruess, Christine;CRuess@sandiego.gov;Yackly, Charles;CYackly@sandiego.gov;Steirer, Marsi;MSteirer@sandiego.gov;Gray, Sam;SGray@sandiego.gov]

Subject: [Re: cost of service study]

Creation date: [1/15/2003 1:42:33 PM]

In Folder: [InBox]

Attachments: None

Message: [

Given the late start, the holidays, the numerical reconciliation problems that always crop up and the need to edit a couple of drafts before anyone gets to see it, it's highly unlikely that we'll have anything in adequate shape to talk about with PUAC before March. That being the case, an April council date may be optimistic.

The water SRF loans you're seeking don't have the requirements for revenue plans and proportionate-to-use cost allocation that the sewer clean water grants and subsequent SRF loans do. I don't know why, they just don't. On the other hand, the sewer SRF administrators never balked at subordinate status for their loans, but the water people have been pains. You'd think there'd be consistency in SRF loan administration, but there isn't.

- D

>>> Marsi Steirer 01/15/03 12:29PM >>>

hello! today at nr&c donna frye took the opportunity to ask me questions about the status of the cost of service study (coss). I told her it began in November of last year and we were aware of the deadline for completion by end of April per the motion during the rate increase hearing.

my question is associated with the project's schedule and stakeholder input/any discussions with the WD. Since it is mid-january, if we take this thru the PUAC to City Council we are talking about working with the committees in February and march and general PUAC meeting in April, and reporting back to Council - maybe via NR&C in April. Does the project schedule allow for that in terms of having the study completed in this time frame?

She also asked if any grants/loans we were applying for had similar provisions like waste water federal \$ in terms of equitable rate structure. I said I wasn't aware of that? Is that an accurate statement?

Marsi

Marsi A. Steirer

Deputy Director

City of San Diego Water Department

(O) 619.533.4112

(F) 619.533.5278

(M) 619.865.7458

msteirer@sandiego.gov

EXHIBIT 11

293504p
293505

Wastewater hot 02_28_06

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [3F6ADD6F.CCP.MANAGER.100.16D6467.1.66A5.1]

From: [Scott Tulloch]

To: [;Ward, Kathi;KWard@sandiego.gov;Gardner, Larry;LGardner@sandiego.gov;Mendes, Richard;RMendes@sandiego.gov;Hanley, Bill;WHanley@sandiego.gov;Yackly, Charles;CYackly@sandiego.gov]

Subject: [Re: Chamber of Commerce - Cost of Service Study]

Creation date: [9/19/2003 10:41:47 AM]

In Folder: [InBox]

Attachments: None

Message: [

Richard_I am off that day. Bill will have the lead for MWWD. Scott

Scott Tulloch

Director

Metropolitan Wastewater Department

ph: (858) 29-26401

fax: (858) 29-26420

email: STulloch@SanDiego.Gov

>>> Kathi Ward 09/19/03 10:39 AM >>>

I just heard from Angelika and they want to reschedule their meeting for Thursday, 9/25 @ 10:00am. She is not sure she can get a conference room at her location, so she may schedule the meeting @ Doug Sain's office. She will let me know later. Please mark your calendars.

thanks,

Kathi

]

WASTEWATER0003919

EXHIBIT 12

249218

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [4000DDB5.TAHOE.PINE.200.200000B.1.24D562.1]

From: [Kathi Ward]

To: [;Janet Bruce;JBruce@sandiego.gov;Larry Gardner;LGardner@sandiego.gov;Olivia Castillo;OliviaC@sandiego.gov;Scott Tulloch;STulloch@sandiego.gov;Bill Hanley;WHanley@sandiego.gov;Charles Yackly;CYackly@sandiego.gov]

Subject: [meeting w/Doug Sain on Cost of Svc Studies]

Creation date: [1/9/2004 1:36:55 PM]

In Folder: [Calendar]

Attachment File name: [c:\44926pine\CYackly\1512.1.1-TEXT.htm]

Message: [

Richard has set a meeting w/Doug for Thurs 1/22 from 1pm to 2:30pm, in his office. He would like you to attend for sure.

If Scott & Larry are available they are also invited to attend.

Please let me know if you can make it.

thanks,

Kathi

]

EXHIBIT 13

251399p

249219

Email message text

Object type: [GW.MESSAGE.APPOINTMENT]

Item Source: [Personal/Posted]

Message ID: [4000DDB5.TAHOE.PINE.100.1346C79.1.F649.1]

From: [Charles Yackly]

To: []

Subject: [COS @ Richard's with Doug Sain]

Creation date: [1/11/2004 5:23:01 AM]

In Folder: [Calendar]

Attachment File name: [c:\44926pine\CYackly\1512.1-GW.MESSAGE.MAIL]

Message: [

]

EXHIBIT 14

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [40192199.TAHOE.PINE.100.1346C79.1.FBE1.1]

From: [Christine Ruess]

To: [;Larry Gardner;LGardner@sandiego.gov;Charles Yackly;CYackly@sandiego.gov]

Subject: [Voluntary Disclosure]

Creation date: [1/29/2004 3:07:00 PM]

In Folder: [Rate Case-Fin. Plan]

Attachment File name: [c:\44926pine\CYackly\2998.1-TEXT.htm]

Attachment File name: [c:\44926pine\CYackly\2998.2-SEC Final Water 1-27-04 Electronic Version.pdf]

Message: [

Larry & Charles -

Pursuant to some disclosure issues that came up with the Wastewater and Ballpark financings, the City filed a Voluntary Report of Information relating to the 1998 and 2002 water financings ("Report") with the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, etc. (see attachment). The Report states that the General Fund and Sewer Revenue Fund reports disclose information regarding the obligations of the City to make payments to the SDCERS and certain errors discovered in the CAFR and Financial Statements of the Wastewater Utility. While the process to review this same information has not been undertaken for Water, the City is proposing to promptly conduct such a review and will publish an additional Voluntary Report of Information as expeditiously as possible.

This is really more of a concern for Wastewater at the moment and we are hoping that this will be a non event. In the event that someone does contact you regarding this disclosure, the list of appropriate contacts is on the second page.

Please let me know if you have any questions.

- Christine

]

EXHIBIT 15

From: Kelly Salt
To: Bill Hanley; Charles Yackly; George Loveland; Larry Gardner; Richard Mendes; Scott Tulloch
Date: 2/9/04 5:26PM
Subject: California Courts Supreme Court

The California Supreme Court issued its ruling today in Richmond v. Shasta Community Services District. The primary issue in this case is whether a charge that a local water district imposed as a condition of making a new connection to the water system, and that the district used to finance capital improvements to the water system, is subject to the restrictions of Prop 218. In addition, the Court analyzed whether including in the new connection fee a fire suppression charge, the proceeds of which are used to purchase firefighting and emergency medical equipment for the district's fire department, was subject to the provisions of Prop 218. The Court concluded that the capacity charge imposed as a condition of making a new connection to the water system is not an assessment, is not a development fee, and is not a property-related fee subject to the provisions of Prop 218. Unfortunately, however, the Court made further statements respecting water and sewer service fees and charges that in sum conclude that they are property-related fees subject to Prop 218. The Court stated, "We agree that supplying water is a 'property-related service' within the meaning of [Prop 218's] definition of a fee or charge. . . . Several provisions of [Prop 218] tend to confirm . . . that charges imposed for utility services such as electricity and water should be understood as charges imposed 'as an incident of property ownership.'" The Court further stated that because Prop 218 does not provide express exemptions for water and sewer charges (as it does for electrical and gas services) "the implication is strong that fees for water, sewer, and refuse collection services are subject to [the noticing requirements of Prop 218]." This language suggests that with respect to both water and sewer service charges we will have to comply with the provisions of Prop 218 in the future. (Note: There is no discussion by the Supreme Court of the Court of Appeal decision in Howard Jarvis Taxpayers Assoc v. City of L.A., which determined that water fees and charges are not property-related fees and charges subject to the provisions of Prop 218. That is the case that we have been relying on for not requiring our water fees to go through the 218 noticing provisions.)

In light of our discussions on Friday, I thought I had better bring this case to your attention immediately. I am still analyzing it and will be following the League of California Cities discussion and analysis of this case. I would note, however, that the Court's decision that the fire suppression fee was not an assessment, development fee, or property-related fee or charge subject to Prop 218 does open the door for our considering imposing a similar fee with our water capacity charges as a potential revenue source for fire. I will review the case further and report back to you. In the interim, attached is the link to the California Supreme Court web page. You can copy the case by clicking on the link. If you have any questions, please do not hesitate to contact me.

<http://www.courtinfo.ca.gov/courts/supreme/>

CC: Christine Ruess; Dennis Kahle; Kerl Katz; Les Girard; Ted Bromfield

EXHIBIT 16

250800

WW Hot 02_24_06

Email message text

Object type: [GW.MESSAGE.MAIL]

Item Source: [Received]

Message ID: [405EA0AB.TAHOE.PINE.100.1346C79.1.10AF0.1]

From: [Charles Yackly]

To: [;Charles Yackly;CYackly@sandiego.gov;Alex Ruiz;RuizA@sandiego.gov]

Subject: [Re: Low Income Assistance Program]

Creation date: [3/22/2004 8:15:38 AM]

In Folder: [Trash]

Attachments: None

Message: [

There has been no further serious discussion on the matter. However, I suspect that we may hear some more concerns as the cost of service studies move forward as PUAC and perhaps Council may be looking to make some amends..... however, the water and sewer cos's recommendations are indicating that we are charging the small user too much. Charles

>>> Alex Ruiz 3/21/04 9:01:32 AM >>>

C:

Just wondering whether there is any current push to implement something on the above.. I recall that this was a topic of discussion in late 2002. Let me know and I can put this on my action items list-Alex

]

EXHIBIT 17

259874

Email message: text

Object type: [GW.MESSAGE.MAIL]

Source: [Received]

Message ID: [3D0F26A0.CAB7-9.FM.100.1357474.1.8584.1]

From: [Terri Webster]

To: [;Josie Matsuo;JMatsuo@sanidiego.gov;Dennis Kahlie;DKahlie@sanidiego.gov;Charles Yackly;CYackly@sanidiego.gov;Sam Gray;SGray@sanidiego.gov]

Subject: [Re: Up-Front Funding of Water Department Pension Liability]

Creation date: [6/18/2002 12:25:03 PM]

In Folder: [Water Debt Issuance]

Attachments: None

Message: [

Hi all

Please keep this issue to yourselves....at this point it is just an idea being explored I don't want the issued raised out of this group please....I understand your answer Dennis....thanks and we'll get back to you if needed

Terri

>>> Dennis Kahlie 06/18/02 11:37AM >>>

Josie,

Unfortunately, until the debt issuance currently scheduled for October is completed, I don't think the Water Department is in a position to front-fund its \$1.3 million pension fund liability. Would a lump-sum payment of balance due in January be of help?

D

}

EXHIBIT 18

266558

Email message text

Object type: [GW.MESSAGE.MAIL]

sm Source: [Received]

Message ID: [401E5971.LASSEN.SEQUOIA.200.2000003.1.7011A.1]

From: [Terri Webster]

To: [;Frazier, Patricia;PFrazier@sandiego.gov;Ruess, Christine;CRuess@sandiego.gov;Kahlie, Dennis;DKahlie@sandiego.gov;Adachi, Eric;EAdachi@sandiego.gov;Kommi, Lakshmi;LKommi@sandiego.gov;Vattimo, Mary;MVattimo@sandiego.gov;Ryan, Ed;EdRyan@sandiego.gov;Bingham, Clay;CBingham@sandiego.gov;Hanley, Bill;WHanley@sandiego.gov;Yackly, Charles;CYackly@sandiego.gov]

Subject: [Re: Critical Issue - Pension Contribution Factors]

Creation date: [2/2/2004 2:01:27 PM]

In Folder: [Mail Box]

Attachments: None

Message: [

To all

It is important to have consistency in numbers and methodology in all our bond disclosures. I spoke to Lakshmi on this issue. She will be requesting information from Rick and handle this issue.

Terri

>>> Dennis Kahlie 02/02/04 08:49AM >>>

Reference the attached, receipt of actuarially-based pension factors through FY 2010 is critical to updating both the wastewater and water financial models.

L. Webber believes that the actuary has already prepared the required going-forward projections, which is apparently the case, but only with respect to City-wide projections. The actuary has not, however, prepared such projections specific to the two enterprise funds, which are to be paying the full actuarial rates.

It is particularly important that the wastewater-specific factors be made available as soon as possible to avoid another major flail with Paul, in that the approved pension disclosure language in the NRMSIR filing and the draft POS states that "The City anticipates that the Wastewater System will continue to pay amounts to CERS in accordance with the Actuary Method, and this approach is reflected in the projections contained in Table 14 above."

- D

]

EXHIBIT 19

266562

Email message text

Object type: [GW.MESSAGE.MAIL]

 sm Source: [Received]

Message ID: [406D6AF8.LASSEN.SEQUOIA.200.2000003.1.80A94.1]

From: [Bill Hanley]

To: [;Kommi, Lakshmi;LKommi@sandiego.gov;Wochaski, Ed;EWochaski@sandiego.gov;Webster, Terri;TWebster@sandiego.gov]

Subject: [Re: RATE CASE UPDATE FOR PENSION FUND OBLIGATIONS]

Creation date: [2/3/2004 11:47:00 AM]

In Folder: [Mail Box]

Attachment File name: [c:\44925\EWochaski\2071.12.1-TEXT.htm]

Message: [

Terri - Thanks for the clarification.

>>> Terri Webster 02/03/2004 8:24:12 AM >>>

Bill

The full actuarial rates for FY 04 and 05 for general members is 15.41% and 21.14%. The rates you quoted are a blended general member and elected official rate. Slight difference.

Terri

>>> Bill Hanley 02/02/04 07:31AM >>>

Terri - As you know, we are in the process of updating the Sewer Rate Case for the new POS. I want to make sure that we include all costs / obligations in the Rate Case necessary to ensure compliance with the disclosure statement issued last week.

With regards to the Net Pension Obligation (NPO), it is my understanding that we are fully funded through FY03 and that the rates for fully funding FY04 and FY05 are 15.5% and 21.24%, respectively, of salaries and wages excluding overtime. What should we use for FY06 through FY14?

With regards to Unfunded Actuarial Accrued Liability (UAAL), what should we include in the Rate Case for both past and future costs / obligations?

Finally, Charles Yackly asked that he receive the same information for the Water Fund.

Terri, Thanks for the help with this.

]